



# **Internal Audit Report**

**Health Care Mandates  
July 2003**



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# Maricopa County

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July 22, 2003

Fulton Brock, Chairman, Board of Supervisors  
Don Stapley, Supervisor, District II  
Andrew Kunasek, Supervisor, District III  
Max W. Wilson, Supervisor, District IV  
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2002-03 review of the Health Care Mandates Department (HCM). This audit was performed in accordance with the annual audit plan approved by the Board of Supervisors. The specific areas reviewed were selected through a formal risk-assessment process.

The highlights of this report are:

- HCM's claims system access controls could be strengthened to ensure the integrity, confidentiality, and availability of information.
- HCM's expenditure controls appear inadequate to ensure that financial transactions are properly recorded. HCM has utilized its budget to pay for services attributable to other County departments.
- One of three HCM Key Performance Measures developed for the County's Managing for Results (MfR) program was certified as accurate. On the remaining measures, sufficient data has not been collected as of the date of this audit.

This report contains an executive summary, detailed findings and recommendations, and HCM's response to our recommendations. We have reviewed this information with the Director and appreciate the excellent cooperation provided by HCM management and staff. If you have any questions, or wish to discuss the information presented in this report, please contact Richard Chard at 506-7539.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate  
County Auditor

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# Executive Summary

## **Information Assets Security (Page 7)**

Health Care Mandates' (HCM) information system access controls could be strengthened to ensure the necessary integrity, confidentiality, and availability of its information assets. The claims payment application (Claims), which contains personal identifiable information, has weak user access security. Also, the server that houses Claims data is not secured. Weak access controls diminish computerized data reliability and increase the risk of destruction or inappropriate data disclosure. HCM should improve controls over Claims application access and confidential information.

## **Expenditure Controls (Page 9)**

HCM's expenditure controls appear inadequate to ensure that financial transactions are properly recorded. We found approximately \$100,000 of HCM's budget that was spent on materials and services provided to other departments and another \$65,000 of expenditures posted to incorrect object codes. Also, HCM was unable to provide supporting documentation for other minor expenditures. HCM should improve its controls to ensure all expenditures are charged to the correct accounting strings.

## **Attorney Services Contract (Page 11)**

We tested \$804,876 of invoices and payments related to the attorney services contract, identifying \$31,174 in potential overpayments and control weaknesses that expose the County to financial risk. Although HCM is responsible for payment of the legal services provided, the contracts are issued through County Counsel who approves all invoices prior to payment. As a result, no recommendations are being offered in this audit. Future work in this area will be conducted as part of County Counsel and County Contract audits.

## **Performance Measure Certification (Page 13)**

One of three HCM Key Performance Measures developed for the County's Managing for Results (MfR) program was certified as accurate. HCM has not accumulated sufficient performance data to enable us to test the other two measures. HCM should continue to gather data to allow department performance measures to be tested.

# Introduction

## Background

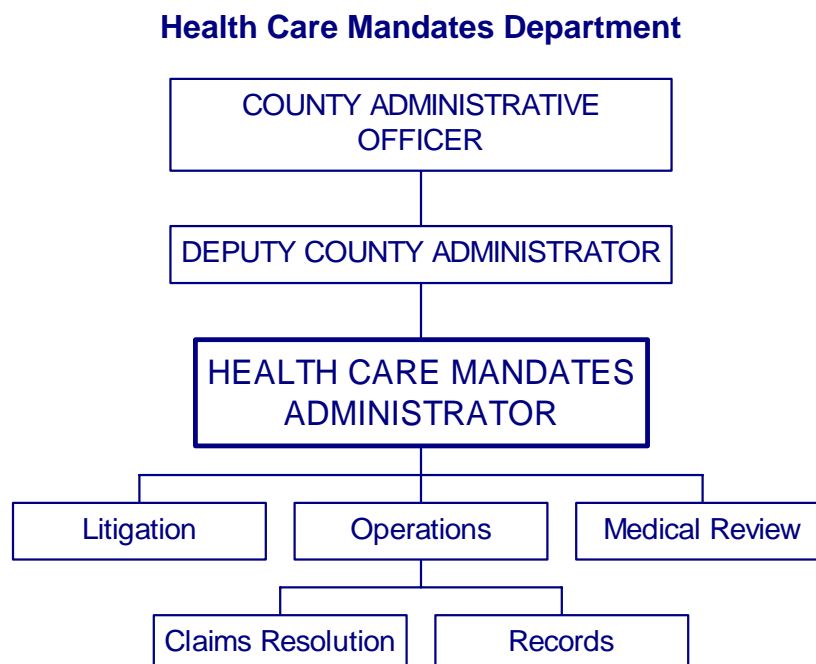
Maricopa County (County) created the Health Care Mandates Department (HCM) to aggressively defend itself against groundless pre-AHCCCS claims from outside hospitals and medical eligibility lawsuits. HCM also reviews Correctional Health Services (CHS) claims, documents Disproportionate Share transactions with the State, and monitors Maricopa Integrated Health System's (MIHS) General Fund subsidies. HCM works with MIHS management on incentive pay calculations, turn-around plans, and financial analyses.

## Mission, Goals, and Performance Measures

HCM's mission is to provide indigent and inmate health-related risk management services for Maricopa County Administration so they can control and minimize health care financial liability. The department has developed a strategic plan in accordance with the County's Managing for Results (MfR) Program. HCM's plan describes three programs with six key results performance measures.

## Organizational Structure

HCM currently has 34 budgeted positions working in three operating divisions. The HCM Administrator is appointed by and reports to the Deputy County Administrator. The chart below depicts the department's organizational structure.



## **Operating Budget**

HCM is funded by the County General Fund with a \$348 million operating budget, which includes Disproportionate Share revenues and expenditures. Almost 76 percent of HCM's FY 2002 expenditure budget was dedicated to mandated health care costs, Arizona Long Term Care System (ALTCS), and Disproportionate Share payments.

## **Program Operations**

### Pre-AHCCCS Claims Management

Arizona Health Care Cost Containment System (AHCCCS) is the State's program to provide medical services for the poor. From October 1982 through October 2001, state statutes required Maricopa County to cover indigent emergency health care claims where the County failed to establish AHCCCS eligibility within two days of service (pre-AHCCCS claims). On October 1, 2001 the State assumed responsibility for new claims. However, HCM is still managing pre-AHCCCS claims for services prior to October 2001.

The County has denied many pre-AHCCCS claims submitted by local hospitals because the claims were not for indigent emergency services in accordance with state statutes. However, in 1988 the County paid a settlement to close suits brought by these hospitals for payment of denied claims. Subsequent to the settlement, local hospitals escalated their claims against the County; submitted claims increased 41 percent within three years following the settlement. Based on this increase (far greater than that resulting from medical cost inflation), HCM began to review each individual claim. Because the County does not feel liable for all the presented claims, HCM is now reviewing and paying on a claim-by-claim basis.

### Correctional Health Claims Management

HCM is also responsible for reviewing and paying inmate service claims that are applicable to Correctional Health Services (CHS). CHS is responsible for authorizing the service; however, HCM reviews the claim and makes the actual claim payment. CHS claims dollars are now included in the HCM budget.

### Litigation/Arbitration

The HCM litigation support function applies to all pre-AHCCCS and CHS claims. The Litigation Manager acts as a liaison with the contracted defense attorney. Litigation staff reviews all claims and patient eligibility files to determine if the County is responsible for the claim. These employees also ensure that denial explanations are precise and easy to understand for courtroom use.

The courts have divided the lawsuits filed against the County into 27 cycles. Each cycle is made up of approximately 10 lawsuits and each lawsuit can be made up of 800 claims. Cycles two and three were just tried with cycle four pending soon.

### Operations

The Operations Division supports the resolution functions within HCM. When a service provider disputes the County's claim payment, resolutions are drawn in attempt to develop agreements with hospitals' counsel to prevent claims litigation. HCM prepares support for rejected claims. Resolutions are handled in rounds (similar to the litigation cycles). Each round may have 700 to

1,000 claims. Currently, HCM is on round 10 of 55 rounds. A round may last several days and involves a meeting where both sides of the dispute present their case and a determination is made. If a claim is agreed upon, the dispute is considered settled. If an agreement cannot be reached, the claim is moved to litigation.

HCM has established a scan center where it stores over four million claims-related documents. Records staff is currently scanning all documentation into an electronic format for medical claims review, resolution, and litigation proceedings.



**Claim Support Documentation**

**HCM Scan Shop Equipment**



### Medical Review

The medical review team reviews claims for proper authorization of services, delays in care that may have resulted in unauthorized additional aberrant (room and board) costs, duplicate charges within the bill itself, and unbundled charges. Any claim items found to be inappropriate are denied. Nurses having practical hospital experience make up the review team, which is a considerable benefit to HCM.

### **Information Systems**

HCM uses the Claims Dbase application for tracking pre-AHCCCS and CHS claims and paying CHS claims. HCM uses a separate application for tracking the eligibility of a patient. HCM is currently finishing development of a web-based application used for authorizing CHS claims. The application is designed to allow hospitals to submit CHS claims for authorization twenty-four hours a day. The system is also being designed to allow notification to the jurisdiction responsible for an inmate receiving service. HCM is using FileMaker, a packaged application, to store the electronic images, notes, and other pertinent information for use by the attorneys in the litigation process.

## **Scope and Methodology**

Internal Audit generally surveyed HCM functions, procedures and controls. Based upon auditor assessments made during the survey, Internal Audit focused on the following objectives to determine if:

- HCM effectively monitors its contracts
- The department's key performance measure data is accurate, reliable, and valid so that adequate planning and budgeting decisions can be made
- HCM appropriately utilizes its budget
- The department has sound information systems controls

This audit was performed in accordance with generally accepted government auditing standards.

# Department Reported Accomplishments

**Health Care Mandates Management has provided the Internal Audit Department with the following information for inclusion in this report.**

The Health Care Mandates Department has seen some very significant changes over the four years since our last audit. The Department has accepted many new responsibilities, most of which relate to the defense of Maricopa County's \$310M liability "tail" under the state's now-defunct pre-AHCCCS program. These changes have caused HCM to grow from one employee to thirty-five. Additionally, at almost \$350M, HCM's budget now ranks as the largest General Fund department within Maricopa County, and second only to the Integrated Health System.

These changes have not come without the "growing pains" ordinarily experienced in such situations. We have, and undoubtedly will continue to, experience the challenges associated with effectively managing in such a dynamic environment. The Internal Audit staff's assistance in helping to remind us of sound business, technical, and security practices in this regard has been deeply appreciated.

Having said this, we are proud of the progress that HCM has made since 1999. HCM has adopted several new liability defense strategies that already have begun to limit Maricopa County's pre-AHCCCS liability. We have collaborated with the state's Division of Behavioral Health to limit the growth of the County's liability under *Arnold v. Sarn* to the rate of medical inflation. We have worked successfully to resolve outstanding Correctional Health liability issues at very favorable rates; and consulted with our Integrated Health System to limit the growth of General Fund subsidies. HCM is also looking forward to successes in several new innovative ventures, such as our collaborative project with the Correctional Health Department to institute a Restoration to Competency program designed to save as much as \$27.5M over the next five years, while at the same time improving service delivery.

The next four years will undoubtedly bring even more changes to Maricopa County and the Health Care Mandates Department. We look forward to working with Internal Audit to meet these changing demands. Once again, please thank your staff for their willingness to openly inquire, discuss, and even engage in a lively academic debate regarding our functions, processes, and operations.

# Issue 1 Information Assets Security

## Summary

HCM's information system access controls could be strengthened to ensure the necessary integrity, confidentiality, and availability of its information assets. The claims payment application (Claims), which contains personal identifiable information, has weak user access security. Also, the server that houses Claims data is not secured. Weak access controls diminish computerized data reliability and increase the risk of destruction or inappropriate data disclosure. HCM should improve controls over Claims application access and confidential information.

## Industry Best Practices

System access is the ability to do something with a computer resource; it can be logically or physically based in accessing computerized information resources.

Logical System Access	Software is designed to prevent unauthorized access to sensitive files. Utilizes user IDs and passwords.
Physical System Access	Computers and other confidential information are in locked rooms to limit physical access based on employee responsibilities.

Physical or logical access should be based on the principle of least privilege, which requires that users be granted access only to resources needed to perform their job functions. Controls should ensure access to data and information systems assets is limited. Adequate system security helps ensure the integrity, confidentiality, and availability of the information assets.

## Control Weaknesses

HCM's claims application (Claims) has inadequate logical system access controls. All HCM employees have the same level of access within Claims and are not restricted based on the principle of least privilege. These control weaknesses exist because the application was developed without consideration for security features. The application could be locked, to make the application more secure, but extensive programming would be needed to add a security module.

Additionally, physical access controls are weak. The server that houses the claims information and scanned images used in court is not kept in a secured location. Anyone who can obtain access to the HCM work area can access the server.

Inadequate system access controls diminish data reliability and increase the risk of destruction or inappropriate data disclosure. Access controls, both physical and logical, are meant to protect computer resources against unauthorized modification, disclosure, loss, or impairment.

## Recommendation

HCM should:

- A.** Create access security within the Claims application to ensure that (1) users have only the access needed to perform their duties, (2) access to sensitive resources is limited, and (3) employees are restricted from performing incompatible functions or functions beyond their responsibility (segregation of duties).
- B.** Move the Claims server to a secure location to ensure that access is limited to personnel with a legitimate need for access to perform their duties.



**HCM Claims server**

## Issue 2 Expenditure Controls

### Summary

HCM's expenditure controls appear inadequate to ensure that financial transactions are properly recorded. We found approximately \$100,000 of HCM's budget that was spent on materials and services provided to other departments and another \$65,000 in expenditures posted to incorrect object codes. Also, HCM was unable to provide supporting documentation for other minor expenditures. HCM should improve its controls to ensure all expenditures are charged to the correct accounting strings.

### Accounting Codes

Accounting codes are intended to ensure that transactions are properly recorded to the correct departments and functions within the department. The County has developed defined accounting strings to record revenues and expenditures to the appropriate County departments and functions. Departments are expected to use those accounting strings properly.

### Expenditure Review

Our review of HCM expenditures identified the following anomalies:

<b>Incorrectly Posted Transactions</b>	<b>\$65,896</b>	Two transactions were incorrectly posted to the wrong account object code, one for legal services and one for building and improvements.
<b>Non-HCM related Transactions</b>	<b>\$109,000</b>	<p>\$90,000 spent by HCM for HCM employees providing services to Total Compensation (TC) Department.</p> <p>\$19,000 spent by HCM for cubicles and area build-out relating to the Office of Management and Budget (OMB).</p> <p>In addition, supply items (paper, toner, ink cartridges, etc.) are being purchased by HCM and used by TC and OMB.</p>
<b>Unidentifiable Transactions</b>	<b>\$1,819</b>	HCM could not provide support or explanation for two tested transactions. These transactions may not be HCM related, however they were charged to the HCM budget.

Improper posting and controls of expenditures may result in inaccurate financial data. If transactions are not appropriately recorded, overstatements and/or understatements of expenditures and budgets may occur.

## Recommendation

HCM should:

- A. Make the necessary corrections to ensure the transactions incorrectly posted are properly posted to the right object codes.
- B. Make the necessary accounting corrections to ensure that the HCM budget is utilized to pay only for HCM related expenditures, including appropriate personnel costs, work area build-out costs, and supplies related costs.
- C. Implement procedures that will ensure HCM is aware of and has documentation to support expenditures being spent from the HCM budget.



**HCM copier supports Total Compensation and OMB**



**Area build-out for OMB**

# Issue 3 Attorney Services Contract

## Summary

We tested \$804,876 of invoices and payments related to attorney services contract, identifying \$31,174 in potential overpayments and control weaknesses that expose the County to financial risk. Although HCM is responsible for payment of the legal services provided, the contracts are issued through County Counsel who approves all invoices prior to payment. As a result, no recommendations are being offered in this audit. Future work in this area will be conducted as part of County Counsel and County Contract audits.

## AICPA Recommendations

The American Institute of Certified Public Accountants (AICPA) makes recommendations concerning an effective internal control system over invoice processing. These controls include comparing invoice prices with contract terms.

## Invoice Review

We reviewed HCM's attorney services contract and examined six (27%) of twenty-two contractor billings totaling \$804,876. This total represents 59 percent of all dollars paid during FY 2002 and FY 2003. The invoices and payment records show:

- County Counsel reviews and approves invoices, forwarding approved copies to HCM for final review and payment. HCM management gives only cursory reviews to invoices previously approved by County Counsel.
  1. Invoices include expense charges and documentation of billable hours spent on County affairs and applied pay rate, however, the billings do not show the job titles/classifications necessary to justify applied pay rates.
  2. The contract terms "expenses incidental to extraordinary overtime" are difficult to reconcile to specific invoice charges. Additional research and inquiry is needed to reconcile the charges.
- All invoices were adequately supported in accordance with contract terms with two exceptions:
  1. One party, identified as a "contract typist," billed the County for 257.4 hours, receiving \$120 per hour (a total of \$30,888). The contract does not authorize payments for "contract typists."
  2. The County was billed for meal reimbursements totaling \$286. The contract does not authorize payments for meal reimbursements.

## Exposure

The County is exposed to legal and financial risks when contracts are not properly administered or monitored, and billed invoices are not verified against contract rates and terms.

**Recommendation**

Future work in this area will be conducted as part of County Counsel and County Contract audits.

# Issue 4 Performance Measure Certification

## Summary

One of three HCM Key Performance Measures developed for the County's Managing for Results (MfR) program was certified as accurate. HCM has not accumulated sufficient performance data to enable us to test the other two measures. HCM should continue to gather data to allow department performance measures to be tested.

## County Policy Requirements

Board of Supervisors Policy B6001 (4.D Evaluating Results) requires the Internal Audit Department to review County departments' strategic plans and performance measures. The policy also requires that a report of the results be issued. As part of this audit we performed certification reviews of three HCM Key Results Measures. The following information defines the result categories that are used in the certification process.

## Definitions

Certified: The reported performance measurement is accurate (+/-5%) and adequate procedures are in place for collecting/reporting performance data.

Certified with Qualifications: The reported performance measurement is accurate (+/-5%) and adequate procedures are not in place for collecting and reporting performance data.

Factors Prevented Certification: Actual performance measurement data could not be verified due to inadequate procedures or insufficient documentation. This rating is used when there is a deviation from the department's definition, preventing the auditor from accurately determining the performance measure result.

Inaccurate: Actual performance is not within 5% of reported performance and, or the error rate of tested documents is greater than 5%.

Not Applicable: Performance measurement data is not yet available.

## Review Results

We reviewed three Health Care Mandates (HCM) Key Results Measures, developed for the Managing for Results (MfR) program and the results are presented below.

Note: HCM claims have increased 41 percent over the last three years due to a Board action approving 1998 claims at 12.2 cents on the dollar. HCM has determined that the County is not responsible for many of these claims and, therefore, litigation activities have increased dramatically. HCM's strategic plan was only recently approved (late FY 2002). These two variables (workload and delayed plan approval) explains why performance data for two of the key measures is relatively scant. However, as litigation progresses more opportunity to report results will become available.

**Key Measure #1:** Percent of billed charges paid in ancillary fund claims processing activity.

**Results:** Certified.

We sampled 40 percent of the summary measurement data to determine the accuracy of the measure. The table below shows data reported by the department compared to our re-calculated figures as determined by review of supporting documentation for those timeframes tested. There was no deviation from the department reported measurement data to our re-calculated measurement data.

Measure #1	FY02 Qtr 4	FY02 Ann	FY03 Qtr 1	FY03 Qtr 2	FY03 Qtr 3	FY03 Qtr 4
Reported #s	57.3%	19.6%	26.0%	23.3%	21.1%	Data unavailable
Actual #s	Not sampled	19.6%	Not sampled	Not sampled	21.1%	Data unavailable

This measure is accurate and there are adequate controls to ensure consistent accuracy and reliability over time.

**Key Measure #2:** Percent of fully billed charges paid in litigation activity.

**Results:** Not Applicable.

We rated this measure "Not Applicable" because performance measure data is not yet available. The department's strategic plan was approved late in FY02. Litigation is currently working its way through the system so there should be performance measure data available prior to the end of

the fiscal year (FY03). Adequate controls are in place to ensure that this measure will be reported accurately and reliably over time once performance measure data becomes available.

**Key Measure #3:** Percent of fully billed charges paid in claims resolution activity.

**Results:** Not Applicable.

We rated this measure “Not Applicable” because performance measure data is not yet available. The department’s strategic plan was approved late in FY 2002. Litigation is currently working its way through the system so there should be performance measure data available prior to the end of FY 2003. Adequate controls are in place to ensure that this measure will be reported accurately and reliably over time once performance measure data becomes available.

### **Recommendation**

None, for information only.

## **Department Response**



# Maricopa County

## Health Care Mandates Department

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Date: July 7, 2003  
To: Ross Tate, Director, Internal Audit  
Thru: Sandi Wilson, Deputy County Administrator  
From: Shawn Nau, Health Care Mandates Director  
Subject: HCM Audit Response

Accompanying this memorandum is our response to the draft audit report for the Health Care Mandates Department.

Please pass along our thanks to Susan Adams and Christina Black for all of their hard work in connection with the audit. Both Susan and Christina spent a lot of time and effort acquainting themselves with the complex functions and processes of HCM, and were consummate professionals throughout. Their inquiries have given us ample food for thought in many instances, and forced us to re-examine old management decisions in light of new circumstances.

While we have not concurred with some of the findings in the draft, we believe that this is simply because reasonable minds can reach disparate business and professional judgments. Where we have chosen not to concur with a finding or recommendation, it is because we believe that the empirical and logical basis for our business judgment remains intact. This is not to say that the issues were improperly raised.

Once again, thank you for the opportunity to engage in this challenging process. We, of course, recognize that we are far from perfect and can always benefit from constructive review. Thanks again.

/idi

**AUDIT RESPONSE**  
**HEALTH CARE MANDATES DEPARTMENT – JULY 7, 2003**

**Issue #1:**

**HCM's claims system access controls could be strengthened to ensure the integrity, confidentiality, and availability of information.**

Response: Concur, but with limitations.

The server in question is primarily used as the repository of HCM's "claims database." In turn, this database is primarily used to serve two functions: (1) As storage for the history of claims payments under the now-defunct pre-AHCCCS program; and (2) as the claims payment repository for the existing correctional health and TB programs. The vast majority of the data on the server relates to the first function. The server does not, as indicated on page 7 of the report, house any scanned medical or privileged records. Furthermore, HCM has, over the past several years, specifically made it a priority to migrate patient sensitive data off of the server and onto secure resources provided through the OCIO. The server is physically located within HCM's suite because, due to the design of the application it supports, data transfer times are negatively affected by distance.

We believe that the server *is* physically secure. The picture included in the report does not show that the server is actually located within the physically-secured HCM suite. HCM has punch locks on the doors, and a receptionist that monitors the primary entrance. From a historical perspective, this level of security is equal to or greater than the physical security that the server has generally enjoyed during its many years at the Department of Medical Eligibility. This level of security has proven adequate. Placing the server in a locked room would provide little additional benefit; would require additional funding for remodeling; and would restrict the air flow to this relatively old server, potentially reducing the useful life of the server.

From a logical security perspective, we concur that, in a perfect world with unlimited funding, the "claims" database should be reprogrammed with multi-level password protection. However, the "claims" data base is a dBase application that was designed, programmed, and implemented by the Medical Assistance Program almost a decade ago. To be very kind, it is antiquated technology. To make changes to the dBase application would require HCM to modify the source code and recompile. Since an outside contractor did the programming many years ago, we are not certain that we have the latest version of the source code. Thus, to add new security could destabilize the platform by (amongst other things) re-introducing bugs that were eliminated many years ago. Additionally, the primary function of the claims database is as a repository of paid claims data from the now defunct pre-AHCCCS program. It does not, therefore, make sound business sense to spend a significant sum on the redesign of a database that by definition will not generate a positive ROI. The data is largely "static" (i.e., new information is generally not being added to, or deleted from, the database). Thus, in the highly unlikely event that someone would tamper with the server or the data, the data could be easily recovered from a backup copy and placed on one of the OCIOs servers. The backups are secured by OCIO off site.

HCM does concur that the data on the server involving the correctional health and TB programs should be afforded additional security. We concur that this data deserve a separate database with improved logical security. The creation of a new SQL database for this purpose was already being discussed by the HCM management team, but had not been identified as a high priority. HCM will, however, increase the priority of the development of this system.

**Recommendation A:** Create access security within the Claims application to ensure that (1) users have only the access needed to perform their duties, (2) access to sensitive resources is limited, and (3) employees are restricted from performing incompatible functions or functions beyond their responsibility (segregation of duties).

Response: Concur, with limitations. HCM was already planning to design and implement a correctional health/TB SQL database with improved logical security. This project will be moved up on a priority basis. The implementation of an SQL database will also potentially permit the data to be moved to an off-site OCIO server. Will investigate moving pre-AHCCCS data to similar SQL as priorities and resources permit.

Target Completion Date: 1/31/04 (for CH/TB database)

Benefits/Costs: Improved data security.

**Recommendation B:** Move the Claims server to a secure location to ensure that access is limited to personnel with a legitimate need for access to perform their duties.

Response: Concur with limitations. See explanation above.

Target Completion Date: See above. HCM will also investigate additional means of improving physically security in a cost-effective manner.

Benefits/Costs: Improved data security

## **Issue #2:**

**HCM's expenditure controls appear inadequate to ensure that financial transactions are properly recorded. HCM has utilized its budget to pay for services attributable to other County departments.**

Response: Do not concur. The "inadequate expenditures control" issues identified in the finding represent only .00195% of HCM's \$348 million annual budget. Furthermore, in both instances, the identified transactions were made outside of HCM's control. We believe that this represents a strong indication that HCM's expenditure controls are adequate, if not exceptional.

Additionally, while HCM agrees with the factual statement that we have expended funds in support of other departments, we do not concur that our actions were inappropriate. Each of the "other County departments" (OMB and Total Compensation) are part of Deputy County Administrator's "constellation"; are entities that have a cross-functional, support relationship with HCM; and are physically located in the same suite as HCM. Since in many respects, both Total Compensation and HCM serve as cost management

“subsidiaries” of OMB, the shared space arrangement has facilitated a wide range of collaborative efforts and cost savings through shared resources. Examples of this range from assisting in the development of departmental gainsharing programs, to employee compensation budget management strategies, to MIHS/Health Plan design and accounting. To require the suggested level of cost segregation would reinforce the old “silos” associated with departmental boundaries and diminish the collaborative culture that HCM, Total Compensation, and OMB have sought to foster.

Further, given the absence of an automated time, attendance, and cost distribution capacity within the County’s existing finance system, it would be exceptionally time consuming and labor intensive for the three departments to account for and manually journal voucher all of the costs between each of the three departments. Doing so would also offer little if any offsetting benefit. However, in the limited number of instances where it has become apparent that the majority of an expense relates to another department, the expense (and the budget to pay for it) has been shifted at the start of the next fiscal year. The shift of a position from HCM to Total Compensation as of July 1, 2003 serves as an excellent example.

Finally, many of the costs involved in this finding related to organizational changes, which, because they were unanticipated at the outset of the fiscal year, had no other budgeted source of funding. With the conclusion of the pre-AHCCCS program, HCM reduced its staff level by approximately half. This left a significant amount of unused office space within HCM’s suite. In calendar year 2002, both the Total Compensation Department and OMB’s Consolidations Division were created, and located in this office space. These new entities were created mid-fiscal year. Thus, HCM coordinated much of the support for these new entities, and covered certain costs associated with the transition including reconfiguration of cubicles and the purchase of furniture. This space remains available to HCM in the event that litigation requires that HCM expand its staffing levels. However, locating OMB and Total Compensation in this space has saved Maricopa County thousands of dollars in lease costs.

**Recommendation A:** Make the necessary corrections to ensure the transactions incorrectly posted are properly posted to the right object codes.

**Response:** Concur. While we concur with this recommendation, it is important to note that, out of literally thousands of transactions which HCM completes annually, the finding pertains to only two transactions (totaling \$65,986) which were posted to an incorrect object code. This amount represents only .0019% of HCM’s annual budget. We believe that these factors strongly indicate that HCM is, in fact, posting its transactions correctly. In both of the instances identified in the finding, the transactions were journal voucher transactions that were accepted on HCM’s behalf by our analyst in OMB. Both transactions have been subsequently posted to the correct object code. We do, however, believe that the orgs to which the items were posted were appropriate. All of the costs were associated with the development and implementation of HCM’s document scanning facility. Prior to the creation of the facility, document scanning was performed by an outside vendor and billed through outside counsel. The outside counsel’s fees were budgeted in, and ultimately paid out of the org designated for legal expenses. Thus, the costs (and ultimately the savings) associated with document scanning were appropriately attributed to that org.

Target Completion Date: Completed.

Benefits/Costs: N/A

**Recommendation B:** Make the necessary accounting corrections to ensure that the HCM budget is utilized to pay only for HCM related expenditures, including the appropriate personnel costs, work area build-out costs, and supplies related costs.

Response: Do Not Concur. See discussion above.

Target Completion Date: N/A

Benefits/Costs: N/A

**Recommendation C:** Implement procedures that will ensure HCM is aware of and has documentation to support expenditures being spent from the HCM budget.

Response: Do Not Concur. Again, we believe that it is important to note that this finding relates to only two out of thousands of transactions, totaling \$1,818.93 — representing only .00006% of HCM's annual budget. We believe that these factors strongly indicate that HCM is, in fact, properly documenting its transactions.

Furthermore, after an exhaustive search, HCM has determined that the transactions were in fact properly attributable to HCM, *but were never made through HCM's PCard or with HCM's authorization*. According to Robert Schoepe of Materials Management, the charges were actually made by Valerie Chavez of FMD on her PCard, and then reallocated from her PCard to HCM's PCard. Kathy Gibbs contacted Ms. Chavez, who indicated that this was a normal process due to the amount of PCard holders they provide service to. She also confirmed that the amount was actually charged to her PCard and then they go into the Eagles file and charge the department accordingly. Ms. Chavez also stated that "*Internal Audit is aware of this process* from Auditing Facilities Management in their process." (See attached e-mail.) We cannot, obviously, vouch for Ms. Chavez's statements regarding Internal Audit's approval of the process. However, it appears that the costs were accounted for using a standard process, routinely utilized by Facilities Management, and which does not provide the end-user department with supporting documentation.

Notwithstanding the fact that this process appears to be routine, HCM believes that Maricopa County should develop a better way to transfer these expenses in the future. The end result is that expenses were, after the fact, attributed to HCM's PCard even though the order was not placed by an authorized individual (Kathy Gibbs) and never appeared on the PCard's monthly statement. Furthermore, the charges appear to have been inappropriately split into two parts so that they could fit under the PCard's \$1,500 single purchase limit.

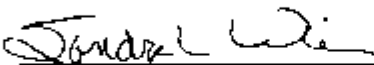
Target Completion Date: N/A

Benefits/Costs: N/A

Approved By :

  
Department Head/Elected Official

7/14/03  
Date

  
Chief Officer

7-14-03  
Date

 for DRS  
County Administrative Officer

7-14-03  
Date

## **Auditor Comments to HCM Response**

### **Issue #2 – Procedures to ensure financial transaction reporting to the proper accounting codes. (See Response pg. 3)**

While we appreciate that it was appropriate for HCM to assist other departments financially, we still maintain that it is important to record these transactions properly. Proper reporting of financial transactions helps to ensure County management will make good business decisions that are in line with the Board of Supervisor's strategic direction and budget goals. HCM is not placing appropriate emphasis on accurate financial reporting nor following Board approval procedures regarding budget transfers.

### **Issue #2, Recommendation C – Procedures to ensure awareness of and documentation to support HCM expenditures. (See Response pg. 5)**

Although the expenditure transactions were small, in relation to HCM's annual budget, a simple reconciliation procedure, implemented by HCM would have caught the discrepancy we noted. (The referenced attachment can be found in the Internal Audit's department files.)